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RISK DISCLOSURE PRACTICES OF MALAWIAN COMMERCIAL BANKS [*]

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ABSTRACT

The aim of the study was to examine the risk disclosure level in annual reports of the Malawian commercial banks and the influence of profitability on it. The study used a risk disclosure index constructed based on the requirements of the Basel II framework, the corporate governance guidelines for banks issued by the Reserve Bank of Malawi and IFRS 7. The disclosure index consisted of 34 disclosure items divided into six categories namely: board and management structure related to risk management, market risk, credit risk, liquidity risk, capital management and operational and other risks. The results revealed a high risk disclosure level among the sampled banks. The individual bank score range was between 0.76 and 0.88 with an overall score of 0.82. Indicating that on average 82% of the disclosure items were actually disclosed in the annual reports of the sampled banks. Furthermore, the disclosure scores based on the risk disclosure categories varied between 0.61 and 1.00. The category with lowest score was board and management structure related to risk management (0.61) followed by operational risk and other risks (0.69). Capital management scored 0.74, whereas credit risk, liquidity risk and market risk each scored the maximum score of 1.00. Furthermore regression analysis suggested that profitability does not influence the level of risk disclosure.

Keywords: Annual reports; Risk disclosures; Risk disclosure Index; Malawi.

INTRODUCTION

It is acknowledged that risk is an inherent part of business and public life (Tchankova, 2002). According to Htay et al. (2011) risk is everywhere and can't be avoided in any types of business activities. Besides, within the organization, risk covers all aspects of organizational activities and is included in all management levels (Tchankova, 2002). As a result, the management of risks is commonplace especially in large organizations, and particularly in financial institutions (Thompson and McCarthy, 2008). Generally financial institutions achieve their goals especially by administering risks (Al-Tamimi and Al-Mazrooei, 2007). Thus they need safeguards in place to lower potential losses (Thompson and McCarthy, 2008). Risk management is therefore a crucial part of the organization's activities aiming at helping all other management activities to reach the organization's aims directly and efficiently (Tchankova, 2002).

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Exacerbating the need for risk management is the current operating environment which is characterized by dynamism. According to Tchankova (2002) dynamic market relations increase the uncertainty of the environment, thus, keeping high competitiveness requires the organizations to start initiatives that may have different possible outputs whose possibility of occurrence determines the risk in organizations' activity. Uncertain business environment requires an organization to manage its risks in order to reduce the unwanted impact of risks on current and future firm performance (Arshad and Ismail, 2011). Besides, Hunziker (2013) posited that risk management has become considerably more important especially due to the use of more complex and innovative financial instruments. Accordingly, identification, valuation and controlling of risks arising from these financial instruments have become a major task of an internal risk management (Hunziker, 2013).

The current study focuses on the banking sector. Generally, the nature of banking business exposes the sector to more risk than other business sectors (Htay et al., 2011). Consequently, risk management is a cornerstone of prudent banking practice (Al-Tamimi and Al-Mazrooei, 2007). Besides, banks operate under a unique system of public oversight in the form of bank supervisors and a comprehensive body of banking laws and regulations (Spong and Sullivan, 2007). Compared to many other sectors, banks face an additional layer of supervisory constraints on the options they consider in managing risk (Spong and Sullivan, 2007). Thus, Al-Tamimi and Al-Mazrooei (2007) conclusively pointed out that:

"Undoubtedly all banks in the present-day volatile environment are facing a large number of risks such as credit risk, liquidity risk, foreign exchange risk, market risk and interest rate risk, among others – risks which may threaten a bank's survival and success. In other words, banking is a business of risk. For this reason, efficient risk management is absolutely required."

Due to the importance of risk management to the financial institutions to achieve their goals and sustain their growth, they are required to disclose their risk management policies in their published annual reports (Wong, 2012). The current study was aimed at evaluating risk disclosure level by the banks in Malawi in their annual reports in line with requirements of Basel II committee and the corporate governance guidelines for Malawian banks. The requirements of the International Financial Reporting Standard (IFRS) 7 were also taken into consideration. Furthermore, the study investigated the influence of profitability on the extent of risk disclosure. The study was significant because, despite the growing interest of the importance of risk reporting, to the best of the knowledge of the researcher there have never been an empirical study focusing on the Malawian banking sector. Furthermore much of the studies have generally been limited to developed and semi-developed countries (Adamu, 2013a).

The current study contributes to existing literature on risk reporting in developing countries and impact of profitability. Furthermore the study informs the regulators, practitioners and other stakeholders of the status and the gaps and serves as a reference for future studies. The rest of the paper is structured as follows. The next section presents the risk reporting requirements for the Malawian banks according to the applicable regulatory frameworks, followed by section three which briefly discusses the importance of risk reporting. Section four that presents the review the extant literature on risk reporting. Section five discusses the research methodology employed while Section six presents the results of data analysis and discussion. Finally section seven gives concluding remarks.

RISK REPORTING REQUIREMENTS FOR MALAWIAN BANKS

The financial sector of Malawi is supervised by the Reserve Bank of Malawi (RBM). It is recognized that the stability of financial sector rely on the effectiveness on corporate governance of banks (Htay et al., 2011), thus in 2010 RBM issued corporate governance guidelines to be followed by the banks operating in Malawi. The guidelines recognize that increasing globalization of financial markets, emergence of conglomerate structures, technological advances and innovations in financial products; have added to the complexity of risk management in the financial sector (Reserve Bank Malawi, 2010). As a result the guidelines stipulate that the banks should have corporate governance structures that among other things promote effective identification, measurement, monitoring and control of all material risks. In this regard the guidelines require the boards of the banks to:

1. ensure that there are risk management policies in place;
2. ensure that the management is implementing adequate risk management system to identify, measure, monitor, control and report all risks associated with the institution and that the risk management system to be supported by a system of sound internal controls; and
3. regularly verify that the institution has appropriate processes that identify, measure, monitor and control risks.

Homolle (2009) recognized increased risk disclosure as one of the relevant regulatory requirements. The review of the guidelines indicated the importance attached to risk disclosure by the regulators. There are a number of specific stipulations requiring disclosures in the annual reports of the banks regarding risk management and compliance to the guidelines. The stipulations include the following:

- *The board shall attest in a statement on.... the effectiveness of the system of internal controls and risk management, and that this statement shall be included in the annual report.*
- *The board shall include a statement in the annual report that the directors are satisfied to the best of their ability, that all material risks are being managed effectively.*
- *Accurate disclosures in the annual report shall be made on the foreseeable risk factors.*
- *The board shall include in its annual report information on risk management and internal Controls.*
- *The annual report shall state whether these corporate governance guidelines have been adhered to or, if not, where there has not been compliance the institution shall give reasons.*

In relation to corporate reporting, the guidelines require the annual reports to include a statement confirming that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently. Besides, the guidelines seem to require the banks in Malawi to comply with International Financial Reporting Standards (IFRS). The guidelines state the following;

"The annual report shall also state whether the International Financial Reporting Standards have been adhered to or if there has been any departure in the interest of fair presentation, this shall not only be disclosed and explained but quantified."

According to Hunziker (2013) companies reporting according to IFRS are obliged to comply with IFRS 7 since January 2007. IFRS 7 requires organization to provide disclosures in their financial statements that enable users to evaluate the nature and extent of risks arising from financial instruments to which the organization is exposed during the period and at the end of the reporting period, and how the organization manages those risks (IASB, 2005). The standard focuses on risks arising from financial instruments typically including but not limited to credit risk, liquidity risk and market risk.

The standard requires both qualitative and quantitative disclosures. Thus for each type of risk, the organization is required to disclose qualitatively:

a. the exposures to risk and how they arise;
b. its objectives, policies and processes for managing the risk and the methods used to measure the risk; and
c. any changes in (a) or (b) from the previous period.

On the other hand the standard required organizations to disclose summary quantitative data about their exposure to risk at the end of the reporting period. It further stipulates that “if the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity’s exposure to risk during the period, an entity shall provide further information that is representative”.

A part from the requirements indicated above, RBM directed all Malawian banks to be Basel II compliant by 1st January 2014. The Basel II framework basically requires the banks to have a formal disclosure policy and be implementing a process for assessing the appropriateness of their disclosures, including validation and frequency (Basel Committee on Banking Supervision, 2006). These disclosures are supposed to include information about risk management structure, how the board or management assesses and manages risks, objectives and policies, risk exposures and measurement, mitigation and control of different risks (Wong, 2012).

The Basel framework classifies risk disclosures into six categories namely; board and management structure related to risk management, credit risk, market risk, liquidity risk, capital management and operational risk and other risks (Wong, 2012). Under each category the framework prescribes the details of the disclosure which are mandatory and non-mandatory. Besides, the framework requires the detailed publication of the information both qualitatively and quantitatively (Wong, 2012). Accordingly the framework state that for each separate risk category banks must qualitatively describe their risk management objectives and policies, including: strategies and processes; the structure and organization of the relevant risk management function; the scope and nature of risk reporting and/or measurement systems; and policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants. Examples of quantitative disclosure for credit risk include; total gross credit risk exposure, plus gross exposure over the period broken down by major types of credit exposure, amount of impaired loans, reconciliation of changes in the allowance for loan impairment etc.

IMPORTANCE AND VEHICLE OF RISK REPORTING BY BANKS

Corporate risk disclosure is important because it provides information on the effects of risk on the firm’s future financial position (Ismail and Rahman, 2013). This is very essential to the assessment of the performance of the firm and to decision-making especially in businesses that are inherently risky like banking. The disclosures help in bridging the gap of information asymmetry that exists between the directors (managers) and shareholders (owners) (Rahman et al., 2013) and other stakeholders. The disclosures facilitate market discipline as market participants have meaningful information on which to base their judgments of risk and performance (Hirtle, 2007). Therefore with the information they are able to predict the potential risk of the firms and to know how the risks are being managed (Htay et al., 2011). Furthermore, disclosure of adequate, timely and reliable information facilitates proper functioning of the financial markets and economic systems (Rahman et al., 2013). Adamu (2013b) surveying financial analysts, stock brokers, bankers and shareholders found that, corporate risk disclosure enhances corporate transparency; facilitates effective risk management; minimizes the problem of over/under stock valuation; and it also helps analyst to make earning forecast with reasonable accuracy.

Moreover, researchers identified poor disclosure of risk information as a main cause of corporate collapse, such as Enron and WorldCom, global financial crises and the present euro zone crisis (Rahman et al., 2013). According to Rahman et al. (2013) poor disclosures restricted the investors to objectively assess the true risk position of the companies they were investing in. However, on the other side, poor disclosure policy permitted the companies to take risk irresponsibly. Thus increased risk disclosure enables objective investment assessment and on the other hand helps to restrict risk-taking (Homolle, 2009). This does not imply that risk-taking is avoided; rather it constrains imprudence in risk-taking. This is supported by the findings of Hirtle (2007) which suggested that greater risk disclosure is associated with more efficient risk-taking.

Finally, the vehicle for risk disclosures must be considered in order to achieve the intended impact. Generally, an annual report is considered as a main disclosure vehicle that conveys corporate information to a wider community (Adamu, 2013a). Extant literature seems to suggest the same as an important vehicle for risk information disclosure. Adamu (2013a) indicated that great interest has recently developed among researchers about the incorporation of risk information in the content of annual reports. According to Htay et al. (2011) disclosure of information in the annual reports is highlighted as one of the important aspects of the good corporate governance. In line, the corporate governance guidelines for Malawian banks mention annual report twenty times in all cases stipulating inclusion of various types of essential information including risk. This indicates the regulators' recognition of the annual report as a crucial vehicle of corporate disclosure. On the other side, Adamu (2013a) indicated that active users of annual reports are currently demanding inclusion of corporate risk disclosure worldwide due to the occurrence of corporate failure, business and investment risks (Adamu, 2013a).

PRIOR STUDIES

Risk management is now attracting the most attention from the business world (Wong, 2012). Consequently, standard setters, academia, shareholders, professional bodies, and other stakeholders have advocated that, corporate entities should report risk related information in the content of their annual reports (Adamu, 2013b). The current study evaluates the banking sector which Homolle (2009) posited that in it high on agenda is increasing risk disclosure via risk reporting in their annual accounts. Regulatory agencies have been issuing standards and other directives to standardise and ensure usefulness of the risk disclosures. On the other side, researchers have been conducting studies to evaluate the risk disclosure practices of the companies in their annual reports. The studies have endeavoured to examine the level of disclosure and the factors influencing it. This review examines the prior studies from various countries.

Zadeh and Eskandari (2012b) examined the financial risk disclosure practices in Malaysia employing content analysis. The study focused on exchange rate risk, interest rate risk, commodity risk, credit risk, and liquidity risk. It was found that the level of financial risk management disclosure has a score of 38 out of one hundred, which was low. Another study was conducted by Ismail and Rahman (2013) examining the risk management disclosure level among top 150 public listed companies in Malaysia. A score sheet checklist consists of mandatory and voluntary items have been developed to examine the disclosure level. Based on the total final sample of 122 listed companies for three years (2006 to 2008) the result showed that risk management disclosure was relatively low. In Romania, Bonaci et al. (2013) using a disclosure index reported also a low level of risk related information being presented by companies listed on the Romanian capital market.

On the other hand, Adamu (2013a) assessed the effect of company leverage on corporate risk disclosure in Nigeria. The sample comprised 12 companies listed on the Nigerian Stock Exchange. The data for the study was drawn from year 2010 annual reports of the sample companies. The study employs regression tools of analysis. The result showed that corporate risk disclosure was not significantly related to company leverage and also it concluded that company size was not influential factor for corporate risk disclosure in Nigeria. Htay et al. (2011) investigated the impact of corporate governance on risk management information disclosure of Malaysian listed banks by using a panel data analysis. The study suggested that higher proportion of independent directors and lower directors' ownership lead to higher risk management information disclosure.

Hunziker (2013) explored market risk disclosures within a sample of 116 Swiss listed non-financial company annual reports using content analysis and correlation analysis. Significant associations were found between the number/amount of market risk disclosures and company size. Similarly a significant association was found between the number/amount of risk disclosures and the company's risk proxied by the gearing ratio. However, no association was found between the number/amount of risk disclosures and the company's performance. Furthermore, Oliveira et al. (2001) found that the two commercial banks with better risk reporting performance had the highest number of branches, and are listed in a regulated market, and in a foreign stock exchange market. Rahman et al. (2013) suggested size and having foreign subsidiaries can actually assist banks to report on risk factors. Zadeh and Eskandari (2012a) reported also that most studies that found a positive relationship between firm size and the level of risk disclosure and firm size can influence the risk disclosure level.

RESEARCH METHODOLOGY

Data Collection and Analysis

The study was focused on evaluating the latest risk disclosure level of the Malawian banks. As at the time of the research the latest information was for the year 2012. Thus, the study used secondary data from the 2012 annual reports of the banks consistent with related studies (Adamu, 2013a; Rahman et al., 2013). There were 12 banks operating in Malawi in 2012, however due to non-availability of annual reports from some banks the sample comprised 7 banks (58%). The sample is considered acceptable as according to Belal (2001) cited in Masud and Hossain (2012) a minimum acceptable sample size is considered to be ten (10) percent of the population for descriptive studies. Furthermore, inclusive seven are two biggest banks that dominate the Malawian banking industry. According to Reserve Bank of Malawi (2011) the two banks constituted 45% of the industry's aggregate assets (49% in 2010), 51% of total capital (53% in 2010), 45.4% of total deposits (52% in 2010) and 44.2% of total gross loans (46% in 2010).

The annual reports of the sample companies were checked against disclosure index developed by the researcher (Htay et al., 2011). Construction of the disclosure index was based on the requirements contained in Basel II framework, the corporate governance guidelines for Malawian Banks, IFRS 7 and other prior studies (Wong, 2012; Rahman et al., 2013). The risk disclosure categories of the study were based on the Basel II framework categories. According to the framework, there are six categories of risk management indicators used to measure different aspects of risk disclosures; board and management structure related to risk management, credit risk, market risk, liquidity risk, capital management and operational risk and other risks (Wong, 2012). The developed disclosure index consists of 34 items of disclosure as follows; eight (8) relating to board and management structure related to risk management, six (6) to market risk and five (5) each relating to credit risk, liquidity risk, capital management and operational risk and other risks (see Appendix A).

Scores on an index of risk management disclosure were derived with reference to the overall rating scores for the six risk management categories for each of the sampled bank (Wong, 2012). The study used the un-weighted method, which involves dichotomous scoring whereby an item is scored as one (1) if disclosed and zero (0) if it is not, consistent with other related studies (Htay et al., 2011; Rahman et al., 2013). The following formula was used that was employed which was also used in Rahman et al. (2013):

$$RDI_j = \frac{\sum X_{ij}}{\sum M_{ij}}$$

Where RDI_j = Risk disclosure index for bank j
M_{ij} = Number of items expected to be disclosed by bank j
X_{ij} = Number of disclosure items i disclosure by bank j
I = 1 if disclosure is made, otherwise 0.

Hypothesis and Model Development

Much of the prior studies on determinants of risk reporting have focused on examining corporate governance elements, size of the bank, liquidity and capital adequacy. There is dearth with regard to the influence of profitability, thus the current study attempted to evaluate it. Anagnostopoulos and Skordoulis (n.d.) attempted to examine it but found no quasi-norms between profitability of the banks and their risk disclosing quantities is revealed. Extant literature, presents however various studies on other themes of corporate disclosure suggest profitability as one of the influence. For example, profitability has been found to be influential to corporate disclosures generally (Bhayani, 2012; Bilal et al. 2013), voluntary disclosure policy (Kolsi, 2012), corporate social responsibility disclosure (Mulyadi and Anwar, 2012; Ebiringa et al., 2013), corporate governance disclosure (Al-Moataz and Hussainey, n.d.). On this basis, the current study hypothesized that:

There is a positive and significant relationship profitability (ROA) and risk disclosure index.

Most of the corporate disclosure studies use return on asset (ROA) as a proxy for profitability, therefore current study adopts the same. The following regression model is used:

$$RDI = b_0 + b_1\ ROA + e$$

Where: RDI = Risk disclosure Index
b_0 = Constant
b_1 = Coefficient of the independent variable
e = Error term

FINDINGS AND DISCUSSION

This section presents the results of analysis and the resultant discussion. The results are generally based on the outcome of the descriptive statistic of disclosure levels and rankings relating to the risk categories, individual bank scores and the overall mean and the regression analysis.

Disclosure Level of Risk Disclosure Categories

Table 1 presents the descriptive statistics of the scores of the individual risk disclosure categories by the sampled commercial banks. The Table indicates that out of the six (6) risk disclosure categories, three (3) had the maximum score of 1.00. These are market risk, liquidity risk and credit risk. The score indicated that all the disclosure items under these categories were disclosed by all the sampled banks. Possible explanation of the maximum score may be the fact all the sampled banks follow International Financial Reporting

Standards thus application of IFRS 7 to them is mandatory. IFRS 7 specifically mentions these three risk categories and makes explicit disclosure provisions. This might be a confirmation that regulation is the most powerful driver of corporate risk disclosure (Adamu, 2013a).

Second in ranking was capital management risk with a mean score of 0.74. As exhibited on Table 1 the score range was between 0.14 and 1.00, indicating that all the items under this category were disclosed at least by one bank. Individual item score showed that two (2) out of the five items disclosure received a score less than the maximum score. There are brief definition of capital management (0.14) and capital management framework, responsibility, structure and policies (0.57), the rest had the maximum score. The results indicate that only one (1) bank clearly defined what capital management is on the other hand only four (4) banks discussed the capital management framework, responsibility, structure and policies (see Appendix A). Content analysis of the narrations under this category revealed that they were generally explanations of the regulatory requirements.

Operational risk and other risks category ranked third with a mean score of 0.69 with the score range between 0.14 and 1.00. Individual item scores (see Appendix A) revealed that only two (2) items received less than the maximum score. These are quantitative analysis of operational risk which had 0.14 and discussion of other types of risks scoring 0.29. This is an indication that only one bank provided quantitative analysis of operational risk, this was done by presenting the beta values of each of its business lines as set by the Basel II Committee. Furthermore, only two (2) banks discussed about other types of risks other than credit, market, liquidity, operational and capital management. This was surprising because the banks are faced by many other types of risks including legal, compliance, reputational, country, social, environmental etc. The content analysis revealed that the only other risk disclosed by every bank was compliance, which was not surprising compliance to a number of regulations is key to the operations of banks. The other types of risks that were disclosed by the two banks that did were social and environmental and strategic.

Finally, ranking lowest was board and management structure related to risk management with a mean score of 0.61. As shown by Table 1 score range was between 0.00 and 1.00, indicating that at least one item of disclosure was not disclosed by all the sampled banks. This was the only category that had items scoring 0.00. Individual item scores (see Appendix A) shows two items scored 0.00 indicating that there were not disclosed by any of the sampled banks. These were “statement attesting the effectiveness of risk management system” and “statement of board satisfaction that all material risks have been managed effectively”. The content analysis revealed that the statements that were made in annual reports in this regard were merely of the board’s acceptance of responsibility and of the actions being taken to ensure effectiveness of the risk management system and effective management of all material risks. Below are examples of such statements extracted from some of the annual reports of the sampled banks:

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.... The Board is responsible for monitoring compliance with the Group’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group’s Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented.

[The bank] operated in a good control environment, which is regularly reviewed. This review incorporates risk management and internal control procedures which are designed to

provide reasonable, but not absolute assurance that the assets are safeguarded and the risks facing the business are being controlled.

The Group has developed a set of risk governance standards for each major risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the Group are governed, identified, measured, managed, controlled and reported

The results show that relatively, attention is need regarding disclosures about board and management structure related to risk management by the sampled banks in line with the regulations. Particularly these two disclosed statements are very important in building confidence to the users of the annual reports that all is well.

TABLE 1

Descriptive Statistics of Risk Disclosure Categories and Ranking

	N	Minimum	Maximum	Mean	Std. Dev.	Rank
Board and Management related to risk management	8	0.00	1.00	0.61	0.44	4
Market Risk	6	1.00	1.00	1.00	0.00	1
Liquidity Risk	5	1.00	1.00	1.00	0.00	1
Credit Risk	5	1.00	1.00	1.00	0.00	1
Operational and other Risk	5	0.14	1.00	0.69	0.43	3
Capital Management	5	0.14	1.00	0.74	0.38	2

Disclosure Level of Individual Banks

Table 2 presents the individual bank risk disclosure index and the overall disclosure level. The table reveals a score range between 0.76 as minimum score and the maximum of 0.88 with a mean score was 0.82. The mean score indicates that on average 82% of the items on the disclosure index were actually disclosed by the sampled banks. The table further shows that four (4) out of the seven (7) sampled banks had average or above average scores while three (3) scored below average. However, the scores below average were all over 0.75 indicating that all the sampled banks performed very well. Besides, the results were generally high relative to other related studies. For example Rahman et al. (2013) found disclosure ranging from 40% to 81% with average score of 59.8%. Zadeh and Eskandari (2012b) reported mean score of 38%. Thus the results suggest high disclosure level among the sampled banks.

TABLE 2

Individual Bank Risk Disclosure Index

Bank Code	RDI
Bank A	0.88
Bank F	0.88
Bank E	0.85
Bank B	0.82
Bank D	0.79
Bank C	0.76
Bank G	0.76
Total Risk Disclosure Index (Mean)	0.82

Influence of Profitability on Risk Disclosure Level

The other objective of the study was to evaluate the influence of profitability proxied by the return on assets and the level of disclosure. As shown by Table 3, the R value of 0.33 suggesting a weak linear relationship between risk disclosure level and bank profitability. Furthermore, R Square of 0.11 indicates that the model has a low predictive power. Profitability can explain only 11% of the variation in the level of disclosure, the remaining 89% being explained by other factors.

TABLE 3

Summary of bank profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.332a	.110	-.068	.05369

a. Predictors: (Constant), Return on Assets

Furthermore Table 4 indicates a p-value of 0.467 which is greater than 0.05, suggesting that profitability is an insignificant determinant of the level of risk disclosure. Furthermore, as shown by Table 5 the coefficient of return on assets is negative, thus the hypothesis is rejected. It can therefore be concluded that profitability is not as significant determinant of risk disclosure level of the sampled Malawian commercial banks.

TABLE 4

ANOVAb of the Bank Profitability

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	.619	.467[a]
	Residual	.014	5	.003		
	Total	.016	6			

a. Predictors: (Constant), Return on Assets

b. Dependent Variable: Risk Disclosure Index

TABLE 5

Coefficients of The Bank Profitability

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	.843	.035	
Return on Assets	-.613	.779	-.332

a. Dependent Variable: Risk Disclosure Index

CONCLUSION AND RECOMMENDATIONS

Risk reporting by banks is crucial as banking is a business of risk (Al-Tamimi and Al-Mazrooei, 2007). The disclosures are very important not only to the sector itself and its investors, but also to the entire economy due to its centrality. The study evaluated the risk disclosure level of the banks operating in Malawi in their annual reports in line with mainly the requirements of the Basel II framework, the corporate governance guidelines and IFRS 7. The results indicated high risk disclosure level in 2012 by the sampled banks. However, though not very bad, relative improvements need to be made with regard to board and management structure related risk management category. Furthermore, the regression analysis results indicated that profitability is an insignificant determinant of the level of risk disclosure.

The study showed that there is a need for the development of a comprehensive and standard checklist for risk disclosure that incorporates the requirements of the applicable regulatory frameworks to Malawian banks. This is imperative because the banks are supposed to comply with a number of regulations both local and international, each having certain unique provisions. A consolidated checklist will ease efforts for compliance on the side of the banks and monitoring on the side of the regulators. Furthermore, direct provisions on the extent, form and location of disclosure in the annual reports need to be incorporated in the local guidelines. At the moment the corporate governance guidelines simply stipulate what should be disclosed in the annual reports with giving the details of extent, form and location. This may give leeway for superficiality of disclosure. Adamu (2013a) also recommended drawing up of comprehensive guidelines and policies on corporate risk disclosure. Currently disclosures in seem to follow the provisions of IFRS 7, which represent the minimum contents, however as a country in development robust disclosures are needed to attract more investors.

The study had some limitations. First being the fact that the study examined only the annual reports of a single year, thus, it is not possible to establish progress over time especially since 2010 when the corporate governance guidelines were issued. Furthermore, the study only examined the presence of the item, and not the quality or the intensity of disclosure of the same. However, considering that it is the first in Malawi and was exploratory, it has assisted in establishing a preliminary point to empirically examine the risk management disclosure level (Ismail and Rahman, 2013). Future studies should consider examining both the level and intensity of disclosure over time, furthermore should attempt to evaluate comprehensively factors that influence risk disclosure levels in the banks.

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APPENDIX A

Items of the Risk Disclosure Index (RDI) and The Scores

A. Board and management structure related to risk management	RDI
1. Risk Governance structure	1.00
2. Bank's philosophy towards risk management, its risk culture and risk appetite	0.71
3. Functions of audit committee and risk committee	1.00
4. Discussion of compliance with RBM Corporate governance guidelines	0.29
5. Discussion of compliance with Basel II	0.86
6. Statement attesting effectiveness of risk management system	0.00
7. Compliance with IFRs	1.00
8. Statement express satisfaction of effective management of all material risks	0.00
B. Market risk	
9. Brief definition and features of market risk	1.00
10. Market risk responsibility, structure, policies etc	1.00
11. Methodology (procedure) used to measure market price risk	1.00
12. Quantitative analysis of market risk - Currency	1.00
13. Quantitative analysis of market risk - Interest rate	1.00
14. Explanations supported by graphs and tables	1.00
C. Liquidity risk	
15. Brief definition of liquidity risk	1.00
16. Liquidity risk responsibility, structure, policies etc	1.00
17. Key procedures to manage liquidity risk	1.00
18. Quantitative analysis of liquidity risk	1.00
19. Explanation supported by graphs and tables	1.00
D. Credit risk	
20. Brief definition of credit risk	1.00
21. Credit risk responsibility, structure, policies etc	1.00
22. Key procedures to manage credit risk	1.00
23. Quantitative analysis of credit risk	1.00
24. Explanation supported by graphs and tables	1.00
E. Operational risk and other risk	
25. Brief definition and features of operational risk and other risks	1.00
26. Operational risk responsibility, structure, policies etc	1.00
27. Key procedures to manage operational risk and other risks	1.00
28. Quantitative analysis of operational risk	0.14
29. Types of other risks (e.g. environmental, social, strategic, reputational etc)	0.29
F. Capital Management	
30. Brief definition of capital management	0.14
31. Capital management framework, responsibility, structure, policies etc	0.57
32. Regulatory capital discussion	1.00
33. Capital adequacy – tier 1 and 2 capital and ratios	1.00
34. Explanation supported by graphs and tables	1.00